The Energy and Technology Committee

March 6, 2007

<u>Raised Bill 1374: AAC Electricity Procurement and Energy Efficiency</u>

Testimony of

The Office of Consumer Counsel

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The Office of Consumer Counsel (OCC) has carefully reviewed and DOES NOT SUPPORT **<u>Raised Bill 1374: AAC Electricity Procurement and Energy Efficiency</u>**. While the bill does seek to promote energy efficiency and improve electric procurement processes, it fails to address the fundamental problem with electric rates, which is the failure of the wholesale power market.

It is impossible to improve procurement results significantly without fixing the underlying wholesale market. Each generator has the choice to sell its output into the wholesale market or as part of a procurement "package." Thus, the procurement results will inevitably reflect, to a great degree, the underlying wholesale market.

This bill takes a lot of the same efforts to improve procurement, promote planning and encourage efficiency as House Bill 7098. However, unlike House Bill 7098, it fails to take the important step of authorizing the traditional utilities (CL&P and UI) to own generation plants again under cost-of-service rates. Having the utilities own generation that bids into the ISO New England wholesale market at cost-of-service rates at peak times will lower prices by mitigating the market power of current suppliers. It will also restore some state control over power prices. In addition, the utilities, unlike merchant generators, have agreed give back overearnings from such peaking power plants, further lowering rates. Finally, authorizing utility-owned generation will ensure electric reliability going forward. While the present generation owners would prefer a shortage to develop for economic reasons, we the customer representatives would like to ensure adequate power supplies, and authorizing some utility-owned generation is likely the cheapest and most certain way to do that.

So, the absence of an authorization of utility-owned generation in this otherwise comprehensive bill is a serious problem. OCC is concerned that this bill will be held up as "the" solution to our electricity concerns, when in fact the bill that truly addresses Connecticut's needs is House Bill 7098.

OCC has particular concerns about Section 3 of the bill. This Section would appear to mandate full decoupling of utility rates from power or gas usage, with the utility no longer being at any risk of under-earning from lower sales. Moreover, and of great significance, the Section would prevent the DPUC from "consider[ing] the existence of such provision in determining the return on equity of such company." In other words, in violation of fundamental utility rate principles, this Section would take away the utility's biggest risk while pretending that such risk still exists for purposes of determining rates. Traditional rate principles would argue for reducing rates where there are substantially reduced risks, but this Section would prevent such a result. Also, the premise of the bill is that utilities are standing in the way of conservation, so we need to take drastic steps to eliminate their desire to sell more power or gas. To the contrary, Connecticut's conservation programs administered by the utilities, with the oversight of the Energy Conservation Management Board and the DPUC, have been highly successful. We don't need to violate rate principles and increase already sky-high customer bills in order to get the utilities "out of the way" of conservation efforts.